

## **NOTES ON LOCAL TAX DISTRIBUTIONS REVENUE REPORTS**

Local tax distributions are amounts disbursed to cities, counties and other local governments by the Office of the State Treasurer. These taxes are collected by the Department of Revenue which is responsible for the correct allocation of the funds. The amounts are based on the local share of retail sales and use taxes collected two months prior to the distribution. Distributions are made monthly; however, no allowances or adjustments are made for late returns. Distributions from late returns are made in the second month after the returns are received just as they are for current returns. The data are used by local governments to track disbursements and plan budgets.

### **Differences Between Local Tax Distributions and the *Quarterly Business Review***

The amounts reported as local tax distributions should not be compared with the *Quarterly Business Review* (QBR) amounts for taxable retail sales by county and city (Tables 3 and 4). The two amounts differ in the following respects.

1. The local distribution amounts are based on local retail sales and use taxes. QBR amounts are based on retail sales only. The use tax is levied on items purchased out of state but used in state and on other items on which sales tax has not been paid.
2. Local sales and use tax distributions are made monthly based on cash collections of two months prior, without regard to when the tax liability occurred. QBR taxable retail sales are reported for the month in which the liability occurs. Adjustments are made for tax returns that are up to two months late.
3. State administrative costs are deducted from the local distributions and the county share is deducted from city distributions.

**Local Sales and Use Tax Distributions** - A portion of the total sales and use tax collected by retailers is a local tax and is returned to the city or county or certain other local jurisdictions where the sales transaction took place. The local jurisdictions are identified by a location code on the tax form. The calculation for the distributions of the local sales and use tax is as follows. A 1.0 percent fee is deducted from the total reported collections for state administration of the program. (State law allows deduction of up to 2 percent for administration costs.) Of the remaining 99 percent, 15 percent is given to the county for transactions occurring within cities. The remaining 85 percent is distributed to the cities as their share of the basic or optional tax. Counties receive the full amount attributable to sales in the unincorporated areas, plus the 15 percent share for sales in cities.

Distributions can fluctuate dramatically due to population changes, as well as annexations and incorporations. Also, corrections to previous incorrect location codes can cause changes to amounts received by particular local entities. Businesses are notified if their location code has changed due to an incorporation, annexation, or inclusion into a public transportation benefit area (PTBA).

**Transit Tax Distributions** - Cities, counties or PTBAs may levy a local sales and use tax for transit programs. The tax may range in rate from 0.1 to 0.9 percent (excluding the local tax for high capacity transit, as described below). After an administration fee of 1 percent is deducted, the remainder is returned to the transit districts.

**Criminal Justice Tax Distributions** - The criminal justice tax is an additional local sales/use tax of 0.1 percent for criminal justice programs. The criminal justice distribution is based on population rather than location code. This tax is levied only by the county and is imposed countywide, but the receipts are shared with the cities. Of the revenues collected for criminal justice, 1 percent is retained for administration. Of the amount remaining, 10 percent is distributed to the county and 90 percent to the county and all cities within the same county on a per capita basis based on their official April 1 populations.

**Correctional Facility Tax Distributions** - The correctional facility tax of 0.1 percent provides funds for juvenile detention facilities and jails in counties with populations less than one million. Each county must vote to approve the tax. It is levied only by the county and is imposed countywide. Of the revenues collected, 1 percent is retained for administration and the remainder is distributed wholly to the county.

**Local Sales/Use Tax Distributions to Other Jurisdictions** - The Spokane County Public Facilities District is authorized to levy a 0.1 percent retail sales tax for the funding of a sports and entertainment arena. Pursuant to 1999 legislation other public facility districts may levy a local sales tax of up to 0.2 percent for regional convention centers.

The funding measures for a professional baseball stadium in King County include an additional local sales and use tax at a maximum rate of 0.017 percent. This tax is credited against the 6.5 percent state tax, so the consumer does not experience an additional tax burden. Another local tax that benefits the baseball stadium is a 0.5 percent local tax on food and beverages sold by restaurants, taverns and bars in King County. This tax is not deducted from the state rate, so it is an additional tax for the consumer.

A local sales and use tax of 0.016 percent has been applied to all taxable sales in King County for the construction of a new stadium for a professional football team. This tax is credited against the state tax and does not increase the consumer's tax burden.

Another local sales and use tax applies within the Regional Transit Authority area, which includes urban King, Pierce and Snohomish Counties. This tax of 0.4 percent is used to fund a high capacity, rapid transit system. (The statutory maximum rate is a full 1.0 percent, or 0.9 percent if the criminal justice tax is levied.)

**Rural Counties Tax Distributions** - In 1998, economically distressed counties were authorized to levy a new local sales/use tax of up to 0.04 percent. In 1999 counties qualified based on population density. In addition, the maximum rate was increased from 0.04 to 0.08 percent. The tax is deductible from the state 6.5 percent tax, so consumers will not bear an additional tax burden. Receipts of the tax are returned to the county to be used to finance public facilities.

**Hotel/Motel Tax Distributions** - The "regular" or state-shared hotel/motel tax distributions are for a local option tax of 2 percent on sales of hotel/motel rooms. The regular hotel/motel tax is not paid in addition to other state and local sales taxes. Instead, it is credited against the state's 6.5 percent retail sales tax. Cities can levy the regular hotel/motel tax within their corporate limits and counties can levy the tax in unincorporated areas and within cities that do not levy the tax. (There are two exceptions: the cities of Bellevue and Yakima, where both the city and the county are permitted to levy the hotel/motel tax.)

A blank in the table beside a county name indicates the county does not levy the tax. Cities not levying the tax have been excluded from the table. A zero indicates the city or county levies the tax but did not receive a distribution that month.

**Additional Hotel/Motel Taxes** - Additional (also referred to as "special") hotel/motel taxes were previously authorized by statute for specific cities and counties for specific purposes. Starting in 1997, any city, town or county was eligible to levy an additional hotel/motel tax at a rate of up to 4 percent (unless a higher rate was previously authorized). Up to one-half, or a maximum of 2 percent, of this amount can be credited against the state sales tax, as under the existing state-shared hotel/motel tax. These taxes are paid in addition to all other state and local sales taxes.

**Disclosure** - To comply with state law requiring data on individual taxpayers to be kept confidential, in the regular and additional hotel/motel tax distribution tables, a "D" indicates that the data cannot be disclosed because the jurisdictions have fewer than three taxpayers who report on a monthly basis. The amounts distributed for the hotel/motel tax have been aggregated in the category called "Ds"; they are not included in the totals for the cities or counties.

**Rental Car Tax Distributions** - Counties may impose an additional 1.0 percent sales tax upon rental cars. This tax is in addition to the regular retail sales tax rate and the 5.9 percent state rental car tax. Proceeds from this additional tax are to be used for public sports facilities and youth or amateur sport activities.

One of the provisions of the funding measures for the professional baseball stadium in King County is an additional sales and use tax of 2 percent on car rentals in King County. The tax rate for car rentals in King County therefore represents the total of the combined state and local retail sales tax, the statewide car rental tax, the optional King County car rental tax and the special stadium sales and use tax.

Within the Regional Transit Authority area of urban King, Pierce and Snohomish Counties, the rental car tax is increased by an additional 0.8 percent. This tax is credited against the state tax.